

Monthly Report On

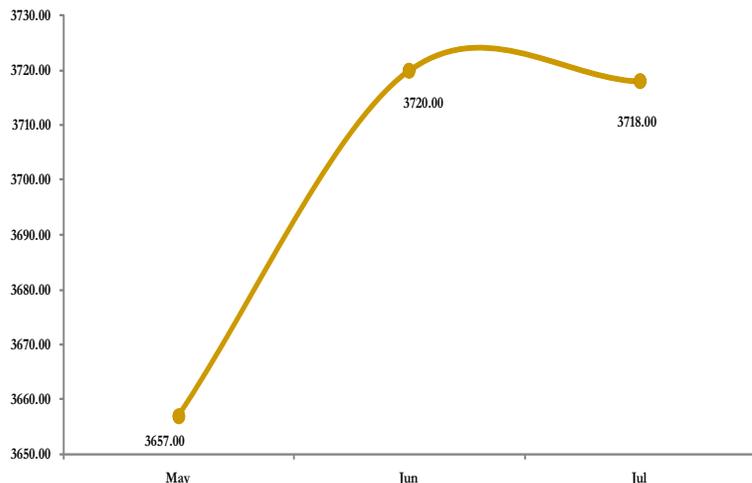
Oilseeds

May 2018



Domestic Fundamentals: Soybean futures (June)

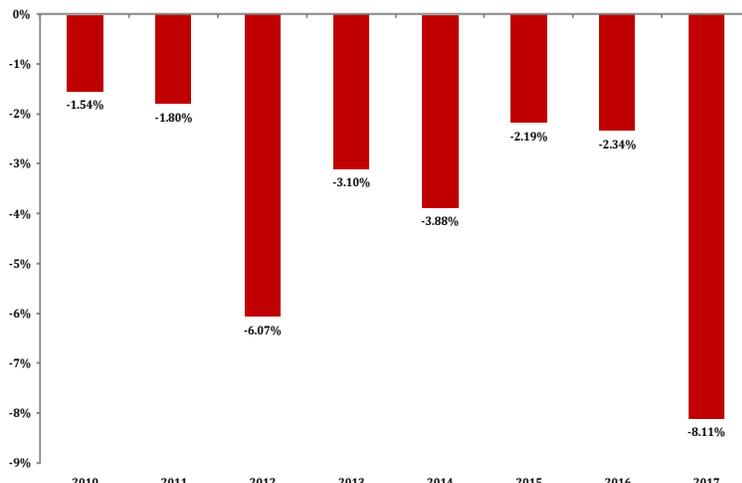
Forward Curve of Soybean Futures (NCDEX)



Source: NCDEX

Closing as on 4th May, 2018

Historic return of Soybean futures (NCDEX) in the month of May



Source: Reuters & SMC Research

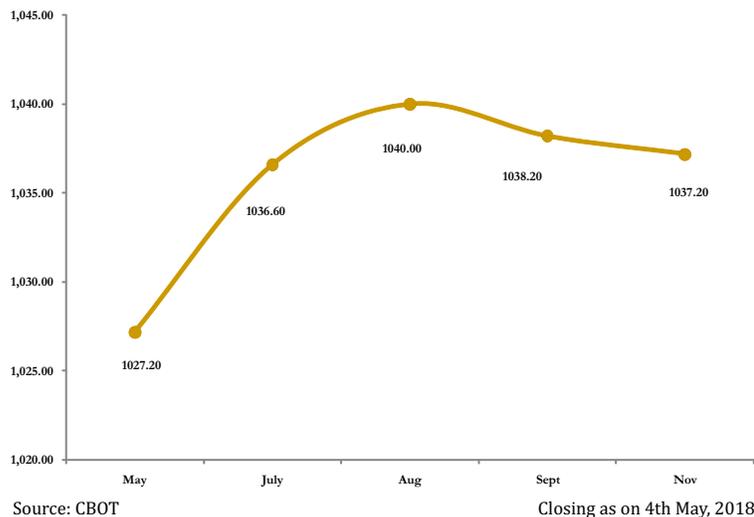
| S2 | S1 | Pivot | R1 | R2 |
|------|------|-------|------|------|
| 3475 | 3604 | 3779 | 3908 | 4083 |

Fundamentals

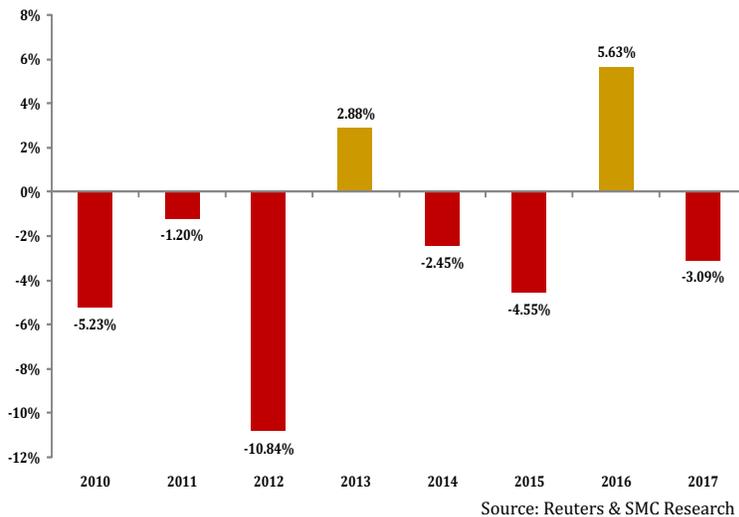
- Soybean prices on the national bourse are giving a lower closing for the past three months. This shows that the underlying sentiments are bearish owing to lackluster export sales of soymeal & expectation of rise in area in coming Kharif season. A similar trend is likely to persist in days to come & soybean futures (June) is expected to trade with a downside bias in the range of 3550-3800 levels. The positive and supportive factor for soybean is dwindling daily supply in the spot market, which may prevent sharp losses, but overall outlook is not impressive ahead due to anticipation of rise in area in coming season.
- In near term, soybean prices are expected to trade sluggish ahead as most buyers will do need-based buying as sowing will start from next month onwards with forecast of good monsoon.
- The shortage of certified soybean seeds is unlikely to have any impact on the coming Kharif acreages, as farmers buoyed by higher prices for the oilseed are expected to expand area under the crop in the major producing States such as Madhya Pradesh and Maharashtra using their own seeds.
- The Agriculture Ministry, at the recent conference on Kharif campaign, had estimated that there could be a shortage of around 9,300 tons of certified soybean seeds. The seed shortage mainly was on account of the widespread destruction of seed farms in Telangana, Maharashtra and Madhya Pradesh due to unseasonal rains last year.
- There's likely to be an increase of 10-15 per cent over last year's acreage of 10.5 million hectares. Besides Madhya Pradesh and Maharashtra. There is expectation that acreages to increase in Karnataka, Telangana and Gujarat. Crops like cotton and urad could get replaced by soybean in Maharashtra and Madhya Pradesh.
- Also, demand in soybean is very poor due to slow sales in soybean meal. Export demand is dull at present, however with falling prices Indian prices are getting competitive in the international market and have raised prospects of export ahead.
- Improving oilseed supply conditions in MY 2018/19 will help Indian oilmeal production to rebound to 17.3 MMT from 15.9 MMT estimated in MY 2017/18. Assuming Indian meal prices stay competitive, oilmeal export sales will rise modestly from 2.1 MMT to 2.9 MMT.
- Total oilmeal consumption in MY 2018/19 is forecast to rise to 14.9 MMT in MY 2018/19, five percent above the current year's estimate. The feed waste consumption being a major component of total feed use, will grow from the current year's estimate of 13.7 MMT to 14.4 MMT in the forecast year.

Soybean (CBOT)

Forward Curve of U.S Soybean futures (CBOT)



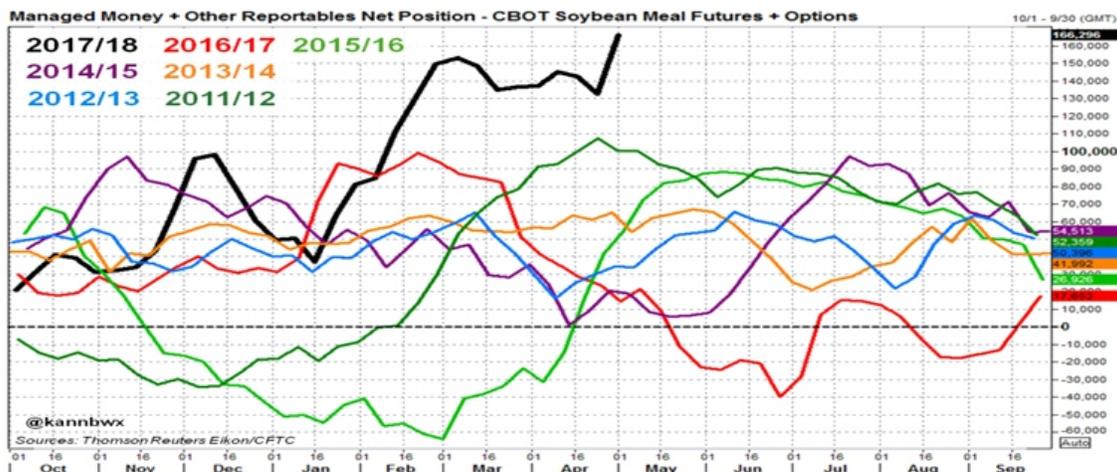
Historic return of U.S Soybean futures (CBOT) in the month of May



| S2 | S1 | Pivot | R1 | R2 |
|------|-------|-------|-------|-------|
| 9.57 | 10.03 | 10.40 | 10.86 | 11.24 |

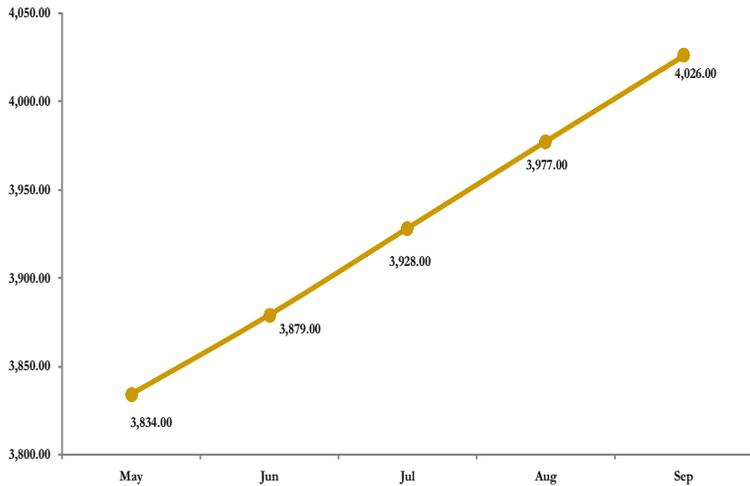
Fundamentals

- U.S soybean futures will possibly trade sideways in the \$9.95-10.80 a bushel. The market participants are buying hand to mouth due to the slowdown of soy meal sales. Moreover, they are cautious ahead of the World Agricultural Supply and Demand Estimates (WASDE) report on May 10, 2018.
- During the start of this month, soybean gains were largely linked to strength in soybean meal, because otherwise, traders have had a rather tepid view on soybeans over China's slapping of tariffs on U.S. beans last month.
- No deal was reached in two days of negotiations between the US and China, with both sides suggesting some minor issues had been solved but none of the major requests.
- U.S. soybean sales to China over the last four weeks are down 10 percent from a year ago, according to U.S. trade figures. This is a blow to farm country, which helped boost President Donald Trump into office in the 2016 election.
- Bloomberg reported that China had turned to Canada and Brazil for its soybean imports, a response to tariffs imposed earlier this year by the Trump administration intended to protect American steel and aluminum.
- China is taking extra efforts to increase its soybean output this year amid an ongoing trade spat with the United States that threatens to curb imports from its second supplier.
- The U.S.-China issues got the better of soybeans late last week, as market-watchers were hoping for more progress from trade talks between Beijing and Washington. China's Xinhua news agency reported that the talks had ended with "relatively big" disagreements.
- Speculators in the "other reportables" category are not quite as bullish soybean meal as they had been back in February. But combining this position with the managed money position through May 1 yields a whopping 166,296 futures and options contracts.
- Managed money in soybean futures and options added 6,953 contracts to their net long position of 177,047 contracts last week.



Mustard futures (June)

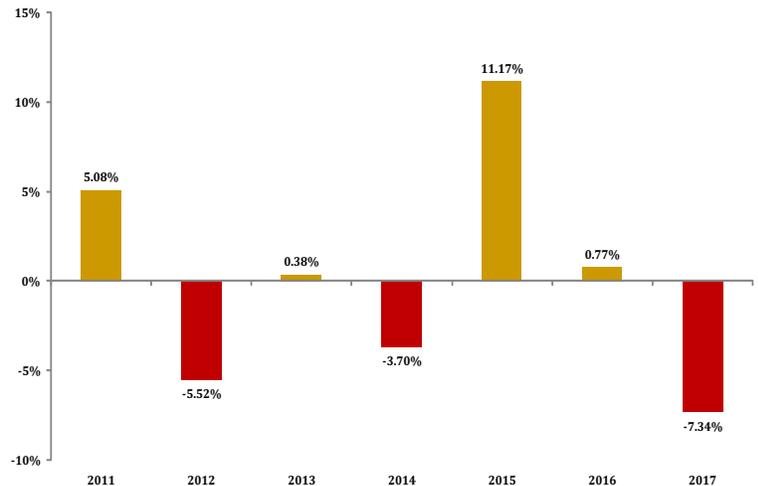
Forward Curve of Mustard futures (NCDEX)



Source: NCDEX

Closing as on 4th May, 2018

Historic return of RM Seed in the month of May



Source: Reuters & SMC Research

| S2 | S1 | Pivot | R1 | R2 |
|------|------|-------|------|------|
| 3524 | 3659 | 3900 | 4035 | 4276 |

Fundamentals

- Last month, mustard futures witness its biggest fall during this year from 4100 levels to 3727 levels. Behind this correction, the sentiments were bearish amid expectations of larger crop & poor offtake of mustard oil due to rising temperatures in North India. Going ahead, it seems that the correction phase in Mustard futures (June) may witness a halt & take support near 3700 levels. However, the upside may get restricted near 3950-4000 levels.
- Demand in mustard seed is said to be sluggish due to weak demand from stockiest as they have bought sufficient quantity at the higher level. Now stockiest are mostly sidelined, while arrivals are ample in the spot market and thus more correction in prices can't be ruled.
- Crushers demand is also not very strong at present due to slow sales in mustard oil amid higher temperature in North India. The consumption of mustard oil usually remains slightly on the lower side during summer season.
- Long term outlook for mustard seed seen dismal as production is expected at 70.50 lakh tons, according to COOIT, and the same is higher than market expectation of 65-67 lakh tons. Last year production was 67 lakh tons.
- Apart from big production size, new crop seen better than expected and oil content is said to be 41-42 percent due to favourable weather condition after good monsoon season last year.
- Mustard seed prices may remain under pressure in coming weeks as arrivals are likely to rise, whereas demand for mustard oil continues to remain low so crushers are not

Trade Estimated 2018-19

| S.No. | State | Figure |
|---|------------------------------|--------------|
| 1 | Rajasthan | 25.50 |
| 2 | Punjab / Haryana | 7.75 |
| 3 | Madhya Pradesh & Chhatisgarh | 8.25 |
| 4 | Gujarat | 3.50 |
| 5 | Uttar Pradesh | 12.50 |
| 6 | West Bengal, Bihar & Others | 13.00 |
| Total Crop | | 70.50 |
| Add: OLD STOCK (As on 28th Feb' 2018) | | 4.00 |
| Retained for Sowing & Direct Consumption | | 4.50 |
| Marketable Surplus | | 70.00 |

Mustard futures (June)

willing to procure mustard seed at higher level.

- The crush parity in the recent weeks has declined significantly due to lackluster demand in mustard oil and mustard cake.
- Buyers are not in a hurry to procure mustard seed due to estimate of higher production and expectations of more correction in prices, however government has already started procurement programme at minimum support price (MSP) under PSS scheme to support prices.
- The National Agricultural Cooperative Marketing Federation of India bought 291,895 tn of mustard in Rajasthan, Haryana, and Madhya Pradesh as of 1st May, 2018. (NAFED bought 124,910 ton of mustard in Rajasthan, 154,904 ton in Haryana, and 12,081 ton in Madhya Pradesh).
- The Centre had approved procurement of 800,000 ton of mustard in Rajasthan, 237,250 tn in Haryana, and 390,400 ton in Madhya Pradesh.
- Production of mustard in India in 2017-18 (Jul-Jun) is estimated at 7.2 million tons, up from 6.9 million tonsthe previous year, according to a joint survey by the Central Organisation for Oil Industry and Trade, and the Mustard Oil Producers Association.

Estimate of End Stock as on 30th Apr'18

End stock with farmers

| Particulars | Figure |
|---------------------------|--------------|
| Marketable surplus | 70.00 |
| Arrival Till 30th Apr'18 | 28.00 |
| Stock with farmers | 42.00 |

Fig in Lac MT

End stock with Processors & stockists

| Particulars | Figure |
|---|--------------|
| Arrival Till 30th Apr'18 | 28.00 |
| Crushing | 17.00 |
| Stock with Processors & Stockist | 11.00 |

Fig in Lac MT

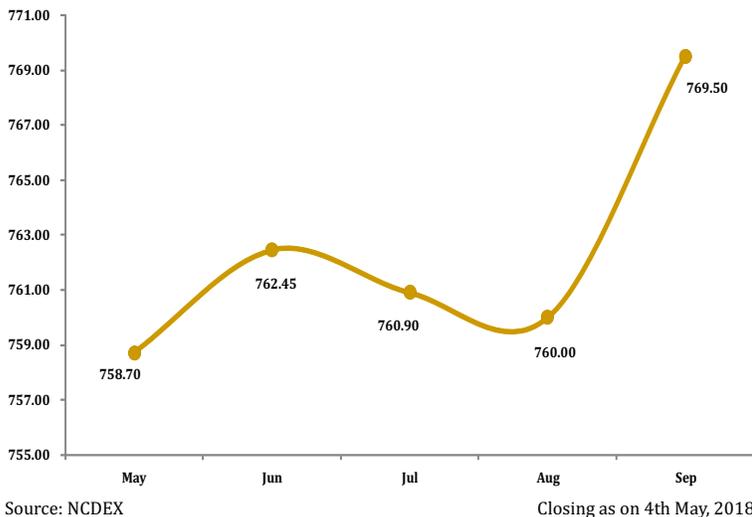
Stock Farmers & Processors stokist as on 30th Apr'18

| Particulars | Figure |
|----------------------------------|--------------|
| Stock with farmers | 42.00 |
| Stock with Processors & Stockist | 11.00 |
| Total | 53.00 |

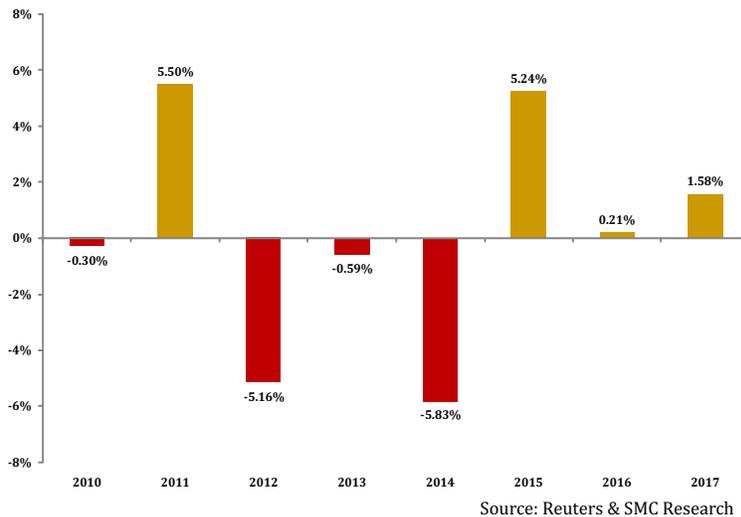
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Edible oil complex (Domestic Fundamentals)

Forward Curve of Refined Soy oil futures (NCDEX)



Historic return of Soybean Oil futures (NCDEX) in the month of May



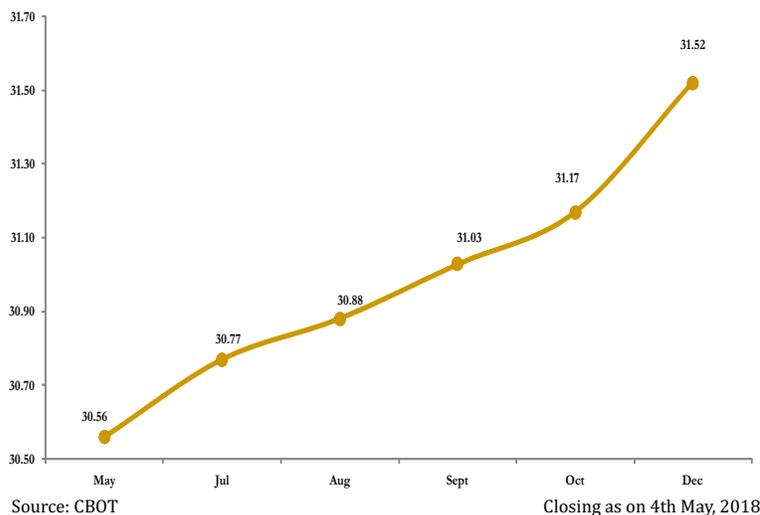
| Commodity | S2 | S1 | Pivot | R1 | R2 |
|---------------------|-----|-----|-------|-----|-----|
| CPO (May) | 619 | 631 | 645 | 657 | 672 |
| Ref. soy oil (June) | 740 | 753 | 775 | 787 | 810 |

Fundamentals

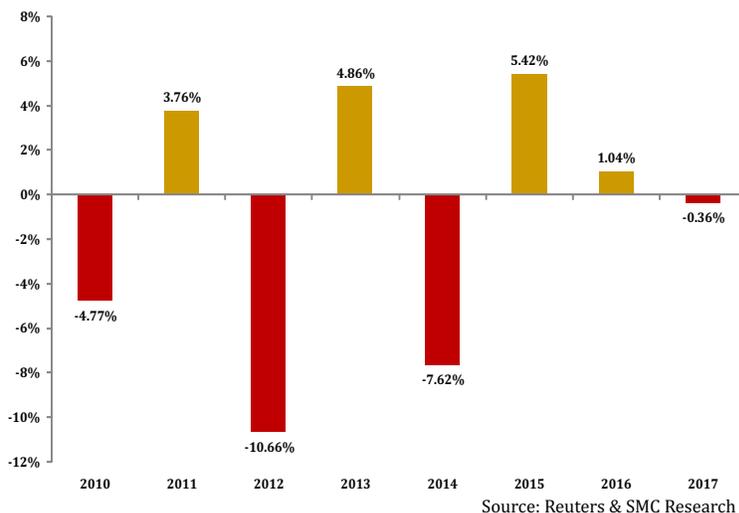
- **CPO futures (May) may continue to witness a consolidation in the range of 630-660 levels. A weaker rupee is restricting the correction as imports are getting costlier. The rupee (INR) fell sharply against the US dollar (USD) to breach the 67 mark against the greenback. The rupee fell to as much as 67.13 per dollar, its lowest level since February 2017. Moreover, higher crude oil prices & lower level buying in Malaysian palm oil is likely to restrict the downside of domestic palm oil prices.**
- Global crude prices hit their highest in more than three years as global supplies remained tight and the market awaited news from Washington on possible new US sanctions against Iran. US President Donald Trump has set a May 12 deadline for Europeans to "fix" the deal with Iran over its nuclear program or he would refuse to extend US sanctions relief for the oil-producing country.
- USDA maintains its import forecast of 10.6 million metric tons of palm oil in India for 2017/18. While India boasts large domestic production capacity of vegetable oil, current USDA crop and crush forecasts suggest that the imported oils will exceed two-thirds of total domestic use in 2017/18. While the competitiveness of different oils is impacting the composition of India's import portfolio, its appetite for affordable vegetable oils continues to grow.
- **A fresh downside in refined soy oil futures (June) can only be seen if it breaks 750 levels, till then consolidation with an upside bias can be seen in the range of 750-780 levels. A weaker rupee is restricting the correction as imports are getting costlier. The rupee (INR) fell sharply against the US dollar (USD) on 7th May 2018, breach the 67 mark against the greenback. The rupee fell to as much as 67.13 per dollar, its lowest level since February 2017. However, a word of caution must be kept as the fundamentals of soybean are bearish.**
- A widening gap between growing edible oil consumption and limited domestic production will increase vegetable oil imports from 16.3 MMT to 17.4 MMT.
- A strong demand from bulk buyers, food business operators, households, and a fast moving, younger consumer generation with more disposable income is pushing consumption growth in India. In spite of the fact that India is the third largest consumer of edible oils after China and the European Union, India's per capita consumption is currently estimated at 18 kg for MY 2017/18, still below the world average per capita consumption estimated at 25 kg.
- After remaining flat since last year, domestic vegetable (edible) oil production is expected to rise 6.2 percent to 7.5 MMT in MY 2018/19 on a net rise in availability of oilseeds for crush-to-oil. The forecast includes 2.3 MMT of rapeseed oil, 1.7 MMT soybean oil, 1.3 MMT of cottonseed oil, 1.2 MMT of peanut oil, 570,000 metric tons (MT) of coconut oil, 250,000 MT of palm oil and 117,000 MT of sunflower oil.
- Vegetable oil consumption in the forecast year will rise 5.3 percent to 24.8 MMT. A strong demand from bulk buyers, food business operators, households, and a fast moving consumer generation with more disposable income are pushing consumption growth.
- The ending stock forecast for MY 2018/19 is 1.6 MMT, which is slightly lower than its five year average of 1.8 MMT and also below the monthly requirement forecast of 2 MMT. Tight stocks will continue to support growing demand for imported oil to fill the consumption gap. Despite larger imports, current year stock is also expected to be tight at 1.5 MMT.

Edible oil complex (International market fundamentals)

Forward curve of U.S Soybean Oil Futures



Historic return of Soybean Oil futures (CBOT) in the month of May

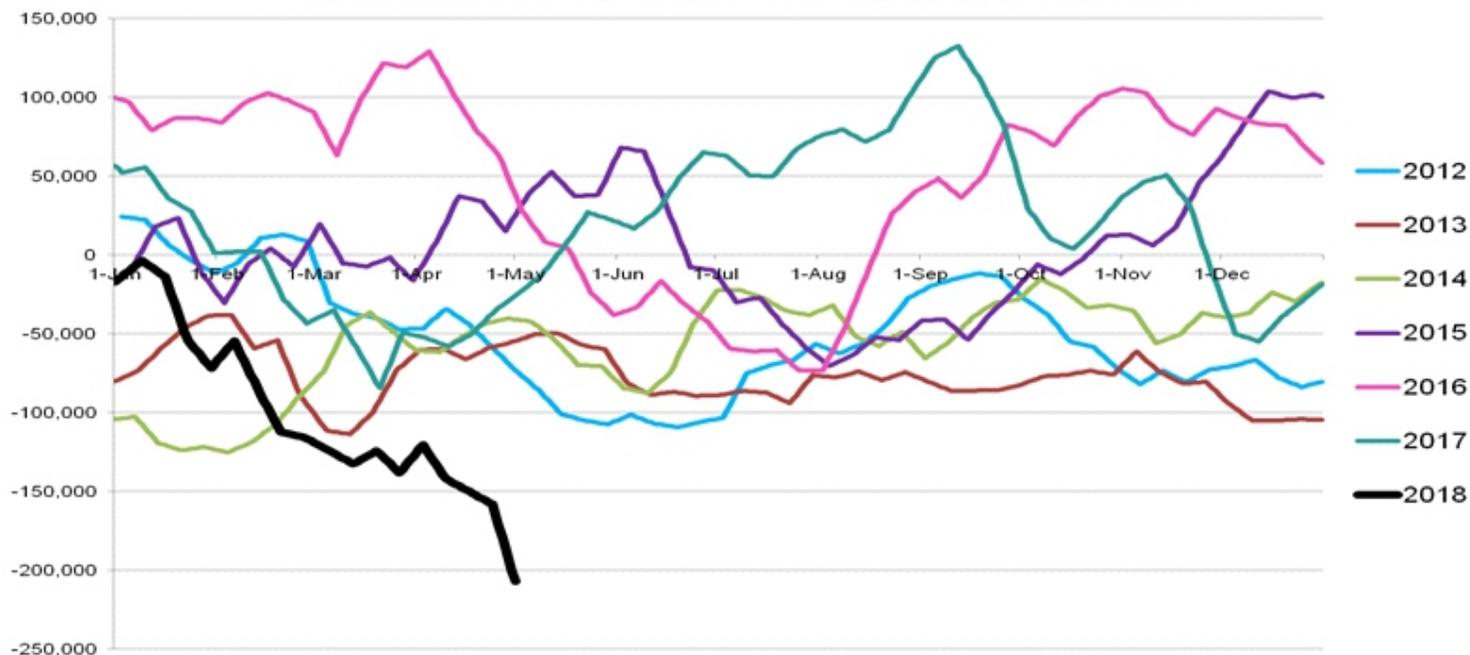


| Commodity | S2 | S1 | Pivot | R1 | R2 |
|--------------------|-------|-------|-------|-------|-------|
| CPO futures (July) | 2253 | 2307 | 2409 | 2463 | 2565 |
| U.S soy oil (July) | 28.94 | 29.78 | 31.39 | 32.23 | 33.84 |

Fundamentals

- **CPO futures (July) on the Bursa Malaysia Derivatives Exchange is expected to trade sideways to up in the range of MYR 2310-2450 a ton.**
- Malaysian palm oil futures clocked their highest gains in three weeks on May 7, 2018, tracking an uptrend in crude oil prices and supported by soyoil on the U.S. Chicago Board of Trade.
- Palm oil prices are impacted by movements of crude oil, as it is used as feedstock to make biodiesel. Rising oil prices in recent weeks have made biodiesel production more economical, as gas oil's price premium over palm last widened to \$56 per ton.
- Global crude prices hit their highest in more than three years as global supplies remained tight and the market awaited news from Washington on possible new US sanctions against Iran. US President Donald Trump has set a May 12 deadline for Europeans to "fix" the deal with Iran over its nuclear program or he would refuse to extend US sanctions relief for the oil-producing country.
- The market participants would also be keeping a close watch on the Malaysian palm oil inventories at end-April, which are expected to fall 4.1 percent to 2.23 million tonnes, the lowest in six months, according to a Reuters poll. Meanwhile, the survey respondents also forecast that April exports will fall 5.5 percent on-month to 1.48 million tonnes, but output will remain flat at 1.57 million tonnes.
- Official data for the month of April is scheduled for release on Thursday, May 10 at around 0430 GMT.
- **The trend of U.S soy oil is clearly down and it can be judged from the fact that this month U.S soy oil made a yearly low of 30.15 cents a pound. This bearishness is likely to continue & the July contract is expected to trade in the range of 30-32.50 cents a pound.**
- Commodity funds opened the month holding record bullish views in Chicago-traded soybean meal and record bearish views in soybean oil, creating the most lopsided speculative positioning in history between the two soy products.
- Money managers' net short in CBOT soybean oil futures and options also hit a new record through May 1 of 73,540 contracts versus 52,726 in the week before. The previous record bean oil short was 64,537 contracts set in January 2014. A lot of this has to do with a suspected tightening in global exportable soybean meal supply, led by both weather and logistical problems in lead exporter Argentina.
- This was spurred on by strength in meal futures, which set across-the-board contract highs on Tuesday. Soybean oil had fallen victim to meal-oil spreads as well as healthy crush volumes out of the United States and weakness in other global vegoil markets.
- No deal was reached in two days of negotiations between the US and China, with both sides suggesting some minor issues had been solved but none of the major requests.
- But unlike the unanimous view toward meal, not all speculators are bearish soybean oil. Over the last couple of months, traders in the "other reportables" category have carried a record bullish stance toward the vegoil.

Money managers' net position in CBOT oil share* futures and options through May 1, 2018



*Spread between money managers' net position in CBOT soybean oil and soybean meal (number of contracts)

Data sources: U.S. Commodity Futures Trading Commission; Thomson Reuters Eikon

@kannbwx

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